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ABSTRACT

Presented is the summary report of an Oregon study (for the 1975-77 biennium) to determine existing funding patterns for the State special education programs and to suggest two alternative formulas for State reimbursement of school district expenditures for handicapped children. Relevant legal definitions legislative bills are cited with emphasis on Senate Bill 157 which combined previous statutes and provided a reimbursement formula not necessarily based on a specific handicap. Among findings noted are that there is a lack of a clear statement of the purpose and objectives of State grants and that clarification is needed as to what costs are reimbursable. Recommendations include giving priority to identifying objectives of State financial participation and deciding whether to develop a procedure for auditing reimbursement claims or to abandon a funding policy based upon actual costs. It is noted that the two alternative reimbursement formulas are described in the complete report. (DB)

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* SUMMARY REPORT *

A STUDY OF THE STUDENTS AND PROGRAMS SUPPORTED BY GENERAL FUND GRANTS TO SCHOOL DISTRICTS FOR THE SPECIAL EDUCATION OF HANDICAPPED CHILDREN

PREPARED FOR:
DR. VERNE A. DUNCAN
Superintendent of Public Instruction
Oregon Department of Education

This study was financed by funds from Title VI-B, EHA.

JUNE 30, 1976

ARTHUR YOUNG & COMPANY

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June 30, 1976

Dr. Verne A. Duncan
Superintendent of Public Instruction
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Dear Dr. Duncan:

This summary report presents the major findings and recommendations of our study of the students and programs supported by State general fund grants to the school districts for the special education of handicapped children. If a more in-depth presentation is desired, the reader is referred to the complete report.

The two alternative reimbursement formulas, described in the complete report were omitted from this summary due to the difficulty of presenting them in a condensed, yet intelligible, form. Briefly, the first formula is an excess cost approach which is based upon a computation of the total cost of educating a handicapped child compared to the total cost of educating a nonhandicapped child. In this approach, the costs of both the special and the regular education services provided to the handicapped child are taken into account. The second alternative formula represents an extremely simplified approach wherein special education moneys are added to and distributed with Basic School Support Funds.

The findings and recommendations in the report go somewhat beyond the scope of work defined in our contract with the Department of Education. We have elected to provide the extra information for two reasons:

1. In order to properly interpret the data presented in this report, it is necessary to know the characteristics of the systems from which these data were developed.

2. We believe that the findings and recommendations can be of significant assistance to you in completing the effective implementation of Senate Bill 157. Of course, the report also includes the data specified in the contract.

Since the handicapped child program under Senate Bill 157 is still in its infancy, there are bound to be numerous problems and details which remain to be resolved. We have tried to maximize our contribution to the success of the program by identifying those problems which we observed and by making constructive recommendations as to how these problems might be alleviated.

Some readers may falsely perceive a negative tone in this report because the findings and recommendations tend to focus on problems. On the contrary, however, we have a very positive attitude toward the special education programs for handicapped children as a result of this study. This attitude is enhanced by the effort presently being expended both in the legislative and executive branches of State Government in an attempt to ensure that the new law is implemented successfully.

We wish to express our gratitude to the numerous individuals who cooperated and assisted in making this study possible. We have been treated exceedingly well by everyone, both in the State Department of Education and in the 30 school districts and intermediate education districts visited during the study.

Yours very truly,

Arthur Young & Company

SUMMARY REPORT
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SUMMARY REPORT

A. PURPOSE AND SCOPE

The purpose of this study was:

- to develop a variety of data regarding the number of students, the costs, and the sources of funding for programs supported by State general fund grants to the school districts for the special education of handicapped children; and
- to suggest two alternative formulas for State reimbursement of school district expenditures on behalf of handicapped children.

These data and alternative formulas are intended to provide a basis for decision making by the Department of Education and by the Oregon State Legislature.

In addition to the data and information required by the formal contract for the study, this report includes other findings and recommendations that could assist in the effective implementation of the new administrative procedures which were developed pursuant to SB 157.

It is important that the reader understand the scope of this study. Two other studies are underway which deal with different aspects of the same subject matter, and these independent efforts could easily be confused with one another.

The scope of this study included the school district and intermediate education district special education programs which are eligible for State general fund grants-in-aid under the Department of Education budget line item entitled "handicapped children's programs (SB 157) general fund," for the 1975-1977 biennium.

This study excluded special education programs which receive no funds from the budget line item identified above. Programs in this category include the regional programs for the deaf and the blind, federally-financed programs which are separately established by the school districts (usually Title I or Title VI programs), and programs which are excluded from receipt of Department of Education funds by virtue of being supported by other State agencies, such as the Mental Health Division (for example, programs for the trainable mentally retarded).

The Task Force on Special Education is presently seeking to determine the costs and funding of most of the programs not covered by this study, including the regional and federal programs, and other special educational services which are funded exclusively by the Children's Services and Mental Health Divisions of the Department of Human Resources.

Finally, the study entitled "state master plan for special education in Oregon," while not charged with the gathering of cost and funding data per se, is developing recommendations for the design of a system to collect these and other data on an ongoing basis, and is developing a plan to finance special education services for all handicapped children.

B. BACKGROUND

> The goal of Oregon's special education program is to restore the handicapped child to full participation in the regular school program without further special education assistance. If this is not possible, the goal then is to minimize the handicap so the child can function with as little special education assistance as possible.
>
> Special Education Programs in Oregon, Oregon Board of Education, 1971.

According to the Oregon Revised Statutes (ORS 343.035), the term "'handicapped children' includes all persons under 21 years of age who require special education in order to obtain the education of which they are capable, because of mental, physical, emotional, or learning problems. These groups include, but are not limited to those categories that have traditionally been designated: mentally retarded, socially or emotionally maladjusted, emotionally handicapped, blind, partially sighted, deaf, hard of hearing, speech defective, physically handicapped or chronically ill, extreme learning problems, learning disabilities, or individuals who are pregnant."

Special education and related special services for the handicapped include "special instruction for handicapped children in or in addition to regular classes, special classes, special schools, special services, home instruction and hospital instruction....transportation, reader service, volunteer services to enhance special education programs, special equipment, psychometric testing, and such other materials and services as are approved by the Superintendent of Public Instruction."

The task of providing special education for handicapped children in Oregon is carried out through an amalgam of agencies, including the State Department of Education, the local school districts, the intermediate education districts (IEDs), and numerous private agencies. Also involved in various ways are the federal government and the Division of Mental Health, the Child Services Division, and the Department of Vocational Rehabilitation of the State of Oregon. The responsibilities of each participant agency are defined in federal legislation, in the Oregon Revised Statutes (ORS), in the Oregon Administrative Rules (OAR), and in numerous contracts, agreements, and other documents established for that purpose.

As might be expected, based on the number of participating agencies, the funding of special education programs for handicapped children involves a network of direct and indirect

grants, contract payments, interdistrict funds transfers, cost reimbursement payments, and so forth.

Senate Bill 157 was passed by the Oregon Legislative Assembly during the 1975 regular session. The purpose of the bill was to expand the opportunities for handicapped children to receive a proper education and, at the same time, to improve the organization, administration, and financing of special education programs. Chapter 343 of the Oregon Revised Statutes contains the provisions enacted by the bill.

SB 157 combined into one act the several existing statutes pertaining to the handicapped child, mentally retarded and emotionally handicapped programs. The types of expenditures incurred for special education which are eligible for partial reimbursement were expanded and also extended to programs serving handicapped children heretofore ineligible for such financial assistance. In so doing, the local school districts have been given an incentive to provide educational opportunities to a broader spectrum of handicapped students. Financial support for increased services for the handicapped was authorized as were other measures intended to protect the interests of handicapped children.

SB 157 modified the "formula" whereby the State Department of Education provides financial assistance to school districts and IEDs for handicapped child programs. Whereas previously, the reimbursement formula in effect depended on the handicap of the student served and/or on the mode of instruction, there is now a single formula covering all programs.

Fiscal year 1976 is the first full year for the handicapped child program under Senate Bill 157. School districts and IEDs desiring to receive special education grants from the State must file the necessary claim forms by October 1, 1976.

C. METHODOLOGY

To develop the data for this study, a sample of 24 school districts and 6 intermediate education districts were visited. These 30 districts accounted for more than half of the State's expenditures under the handicapped child program during fiscal year 1974.

During the site visits, we interviewed district personnel such as the directors of special education, business managers, and in some cases, district superintendents. The purpose of the interviews was to obtain both general and specific information about district special education programs. We collected budgets, financial reports, State reimbursement claim forms, projected activities and cost statements, proposed plans for special education, statistical reports, descriptive program narratives, and numerous other documents containing relevant data and information. Before leaving the district, we reviewed these documents with the appropriate district personnel in order to fill information gaps, clarify inconsistencies and develop further detail wherever needed.

Oregon Administrative Rule (OAR) 22-185 established the "formula" for claimable costs pursuant to SB 157. The claimable items identified in the formula were used as a framework in the development of cost estimates for each of the districts sampled.

We attempted to employ consistent cost definitions from year to year, although this was difficult to accomplish in many cases because of interim changes in district record keeping. These costs were developed for fiscal years 1975 (actual costs, wherever available), 1976 (budgeted costs, modified in some instances for known deviations) and 1977 (adopted or approved budget, depending upon availability). Several of the 1977 budgets failed to receive voter approval but were nonetheless used in this study because they represented the most recent information available.

Estimated costs for fiscal year 1978 represent a simple extrapolation of estimated fiscal year 1977 costs, on a statewide basis, using recent cost inflation trends. The scope of this study did not provide for the development of detailed program and cost assumptions that would be necessary for a formal forecast. In fact, there is currently no actual data concerning the impact of SB 157 nor the effect of the major new federal legislation (Public Law 94-142); hence, a forecast of costs beyond fiscal year 1977 would contain substantial uncertainty.

D. SUMMARY OF FINDINGS AND RECOMMENDATIONS

This section lists the findings and recommendations developed in the study. Supporting documentation and elaboration of each can be found in the full report beginning with the page reference noted in the right margin.

1. Findings	Page Reference
a. While SB 157 is clearly an improvement over prior statutes and can lead eventually to an effective funding formula for special education programs, considerable development and refinement of administrative procedures is needed before this objective can be achieved.	II-1
b. The attitudes of special education administrators at both the State and school district levels appear conducive to successful development and refinement of the funding formula.	II-1
c. We have found no clear statement of the purpose and objectives of State grants to school districts for special education programs, and hence, lack the single most important criterion for evaluating the funding formula.	II-2

		Page Reference
d.	Clarification is needed as to what costs are reimbursable under OAR 22-185 and specifically how the amounts are to be calculated. Without further clarification, uniform and accurate reporting of costs cannot be anticipated.	II-4
e.	Present school district data systems are generally inadequate for accurate reporting of financial and statistical information concerning special education programs.	II-8
f.	The cost and pupil data reported by districts on the fiscal year 1976 "projected activities and cost statement" (PACS) contain numerous significant errors and/or inconsistencies and are not reliable for use except at a very general level.	II-10
g.	The State has no effective procedures for auditing reimbursement claims to ensure that special education funds are distributed in accordance with the intent of SB 157; consequently, it seems likely that a maldistribution of these funds will occur this year with a greater-than-warranted portion going to the more aggressive districts and to those whose errors are, fortuitously, in their own favor.	II-11

		Page Reference
h.	The term "regular per capita cost," which is commonly used by the State Department of Education, does not represent the cost of educating a nonhandicapped child. Further, if limited to cost information provided with the reimbursement claim form, NO MEANINGFUL COST PER PUPIL CAN BE COMPUTED FOR HANDICAPPED CHILDREN.	II-12

2. Recommendations

a.	The state master planning study currently in process should give priority attention to identifying the specific purpose and objectives of State financial participation in the school district special education programs.	III-1
b.	The State Department of Education should decide either (1) to develop an effective procedure for auditing reimbursement claims submitted by the school districts or (2) to abandon the approach to funding which is based upon actual costs incurred. Assuming that the decision is to develop an audit procedure, then	III-1
c.	Adopt a cost concept and measurement technique which provides a more meaningful estimate of the "true" excess cost of educating handicapped children in comparison with nonhandicapped children.	III-3

	Page Reference
d. Develop the necessary financial and statistical record-keeping procedures to support the reimbursement system; incorporate these procedures into an instruction manual for school and intermediate education districts.	III-6

E. SUMMARY OF FINANCIAL AND STATISTICAL DATA

Exhibit I on the following page summarizes the data with regard to funding, costs, and children served in the special education programs sampled in the study.

The exhibit contains the following information:

1. Table A - Cost by Type of Handicap

Total claimable cost, number of pupils, and cost per pupil for several major classes of handicapping condition, fiscal years 1975 through 1977.

2. Table B - Costs for Selected Cost Categories

Salaries and fringe benefits paid to directors and supervisors of education and to their secretaries; cost per teacher for itinerant travel; special transportation and supplies costs.

3. Table C - Costs and Daily Class Hours per Teacher by Type of Program

Costs and daily class hours aggregated by major program alternatives, such as the special class, resource room, home instruction, etc.

4. Table D - Sources of Funds

A breakdown of sources and amounts of funds for school district and IED special education programs receiving grants-in-aid under SB 157.

5. Table E - Pupils and Teachers by Type of Handicap

Reported number of pupils served and teachers employed (FTEs) for several major classes of handicapping condition.

6. Table F - Regular Program Data

A variety of data pertaining to nonhandicapped children.

The tables in Exhibit I were obtained by totaling the corresponding data for all districts in the sample.

Exhibit II contains district cost data extrapolated to fiscal year 1977-1978.

FINANCIAL AND STATISTICAL DATA
SAMPLE DISTRICT TOTALS
PROGRAMS FOR HANDICAPPED CHILDREN

A. COST BY TYPE OF HANDICAP[a]

HANDICAP	FISCAL YEAR 1975 CLAIMABLE COSTS	FISCAL YEAR 1975 NUMBER OF PUPILS	FISCAL YEAR 1975 COST PER PUPIL	FISCAL YEAR 1976 CLAIMABLE COSTS	FISCAL YEAR 1976 NUMBER OF PUPILS	FISCAL YEAR 1976 COST PER PUPIL	FISCAL YEAR 1977 CLAIMABLE COSTS	FISCAL YEAR 1977 NUMBER OF PUPILS	FISCAL YEAR 1977 COST PER PUPIL
Educable mentally retarded	$ 3,762,489	2,528	$1,488	$ 4,017,644	2,139	$1,878	$ 4,331,048	2,147	$2,017
Extreme learning problems	2,690,294	11,531	233	2,897,731	13,110	221	3,369,073	13,246	254
Speech	1,788,116	8,408	213	1,827,429	9,014	203	1,980,070	9,132	217
Emotionally disturbed	1,165,420	784	1,487	1,563,366	1,344	1,163	1,797,389	1,378	1,304
Homebound	272,717	515	530	435,956	531	821	464,020	540	859
Other	869,564	1,028	-	2,770,171	1,273	-	3,076,423	1,385	-
SAMPLE TOTAL	$10,548,600	24,794	$ 425	$13,512,297	27,411	$ 493	$15,018,023	27,828	$ 540
Statewide estimate[b]	$17,013,870			$21,794,030			$24,222,620		

B. COSTS FOR SELECTED COST CATEGORIES

CATEGORY	FISCAL YEARS 1975	1976	1977
Administrative salaries and benefits	$813,686	$1,061,301	$1,153,435
Itinerant teacher travel cost per teacher[c]	209	234	273
Special supplies and equipment cost per pupil[c]	10.89	14.39	16.20
Transportation cost per pupil[c]	92	94	89

C. COSTS AND DAILY CLASS HOURS PER TEACHER BY TYPE OF PROGRAM

TYPE OF PROGRAM	COSTS BY FISCAL YEAR 1975	1976	1977	DAILY CLASS HOURS PER TEACHER (EST.)
Special class	$ 3,842,223	$ 4,411,303	$ 4,845,075	5
Resource room	1,217,297	1,501,118	1,903,325	5
Itinerant teacher	3,209,320	4,482,078	4,874,407	4.1
Home instruction	251,582	386,947	414,844	
Tuitioning	16,848	61,547	68,254	
School psychologists	333,138	507,065	545,664	
Pupil transportation	420,025	553,571	588,574	
Administration	813,686	1,061,301	1,153,435	
Other	444,481	547,367	624,445	
TOTAL	$10,548,600	$13,512,297	$15,018,023	

D. SOURCE OF FUNDS

SOURCE	FISCAL YEAR 1975 AMOUNT	FISCAL YEAR 1975 PERCENT[2]	FISCAL YEAR 1976 AMOUNT	FISCAL YEAR 1976 PERCENT[2]	FISCAL YEAR 1977 AMOUNT	FISCAL YEAR 1977 PERCENT[2]
General district[1]	$ 8,463,590	80.2	$11,257,517	83.3	$11,383,756	75.8
Federal grants	23,876	0.2	33,768	0.3	45,827	0.3
Tuition from other districts	61,191	0.6	41,705	0.3	43,500	0.3
SDE special education grants	1,976,265	18.7	2,147,492	15.9	3,488,240	23.2
Other	23,678	0.2	31,815	0.2	56,700	0.4
TOTAL	$10,548,600	99.9	$13,512,297	100.0	$15,018,023	100.0

[1] Includes local and intermediate sources and SDE grants, excluding restricted grants-in-aid pertaining to the special education of handicapped children.

[2] Percentages may not total 100 due to rounding.

E. PUPILS AND TEACHERS BY TYPE OF HANDICAP

HANDICAP	FISCAL YEAR 1975 PUPILS	TEACHERS	PUPIL/TEACHER RATIO	FISCAL YEAR 1976 PUPILS	TEACHERS	PUPIL/TEACHER RATIO	FISCAL YEAR 1977 PUPILS	TEACHERS	PUPIL/TEACHER RATIO
Educable mentally retarded (ADM)	2,228.8	208.2	10.7	1,806.3	191.1	9.5	1,816.9	189.6	9.6
Extreme learning problems	11,531.0	149.7	77.0	13,110.0	163.0	80.4	13,246.0	170.0	77.9
Speech	8,408.0	113.4	74.1	9,014.0	126.8	71.1	9,132.0	128.7	71.0
Emotionally disturbed	784.0	52.6	14.9	1,344.0	58.3	23.1	1,378.0	59.3	23.2

F. REGULAR PROGRAM DATA

ITEM	FISCAL YEARS 1975	1976	1977
Pupils (ADM)	205,987.8	206,096.8	202,784.0
Classroom teachers (FTE)	8,910.9	9,079.0	8,908.9
Teacher/pupil ratio	23.1	22.7	22.8
Net operating cost per pupil[c]	$1,177	$1,303	$1,447
Transportation cost per pupil[c]	$48	$54	$64
Instructional supplies and equipment cost per pupil	$48	$53	$54

[a] Includes allocation of program administrative expense.

[b] Assumes that the 1976 ratio of sample costs to statewide costs holds for all years (computed from the Projected Activities and Cost Statements submitted by the districts).

[c] Median of the districts surveyed.

ESTIMATED COSTS
FISCAL YEAR 1978

HANDICAP	ESTIMATED[a] CLAIMABLE COSTS	PERCENT OF SAMPLE TOTAL
EMR	$ 4,880,000	29.2
ELP	3,670,000	22.0
Speech	2,230,000	13.3
ED	1,970,000	11.8
Home	530,000	3.2
Other	3,420,000	20.5
Total Sample	$16,700,000	100.0
Statewide Estimate	$26,940,000	

Major Underlying Assumptions

1. Total costs increase at the percentage rate of the preceding year.

2. The cost for each handicapping condition bears the same proportional relationship to the total costs as in the two preceding years combined.

3. The statewide estimate assumes that the fiscal year 1978 ratio of sample costs to statewide costs will approximate the fiscal year 1976 ratio as computed from the Projected Activities and Cost Statements submitted by the districts.

[a] Rounded to the nearest $10,000.